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C O N F I D E N T I A L STATE 299860

MARAD FOR BLACKWELL AND BOURDON

E.O. 11652: GDS

TAGS: ETRD, EWWT, UR, US

SUBJECT: US-SOVIET MARITIME NEGOTIATIONS

BRUSSELS FOR HARTMAN AND SONNENFELDT

1. SUMMARY. US-SOVIET MARITIME NEGOTIATIONS WHICH TOOK
PLACE IN WASHINGTON NOVEMBER 29-DECEMBER 7 FOCUSED ON KEY
ISSUES OF US UNDERCARRIAGE OF GRAIN AND FREIGHT RATE FOR
FIXTURES FOR SHIPMENT OF GRAIN AFTER DECEMBER 31, 1976.
ALTHOUGH SOME PROGRESS WAS MADE TOWARD RESOLUTION OF
THESE ISSUES, SUBSTANTIAL DIFFERENCES BETWEEN THE TWO
SIDES REMAINED AND SOVIETS MAINTAINED THEIR POSITION THAT
THEIR OBLIGATION UNDER THE MARITIME AGREEMENT IS SATISFIED
BY THE OFFERING AND FIXING OF CARGO AND NOT ON THE BASIS
OF CARGO CARRIED. END SUMMARY.

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2. NEGOTIATIONS INCLUDED PLENARY SESSIONS AND WORKING GROUPS, SET UP AT US SUGGESTION, ON UNDERCARRIAGE AND FUTURE GRAIN RATE. BULK OF WORK BURDEN WAS LEFT TO PLENARIES, HOWEVER, AS SOVIET EXPERTS WERE UNWILLING TO

DISCUSS TECHNICAL ASPECTS OF RATE AND UNDERCARRIAGE QUESTIONS.

3. WITH REGARD TO UNDERCARRIAGE, US NEGOTIATOR BLACKWELL REITERATED US POSITION THAT THE SOVIETS HAD VIOLATED THE AGREEMENT BY DENYING TO US-FLAG VESSELS THE FULL ONE-THIRD SHARE OF GRAIN AND OTHER BULK (OIL AND ORE) CARGOES TO WHICH THEY WERE ENTITLED. BLACKWELL PRESENTED TO SOVIETS DETAILS OF THE CARGOES WHICH WOULD HAVE MOVED ON US-FLAG SHIPS IF THE SOVIETS HAD COMPLIED FULLY WITH THE AGREEMENT. HE STATED FURTHER THAT THESE UNDERCARRIAGE CARGOES, WHEN MADE UP, WOULD MOVE AT THE RATES AT WHICH THEY WOULD HAVE MOVED IF THEY HAD BEEN CARRIED AT THE PROPER TIME. (IF THE SOVIETS HAD COMPLIED FULLY WITH THE AGREEMENT, THEY WOULD HAVE BEGUN IN AUGUST TO PAY AN INDEX-DERIVED RATE HIGHER THAN 16 DOLLARS.)

4. THE AMOUNT OF GRAIN UNDERCARRIAGE FROM 1975 AND 1976 CLAIMED BY US IS 1,150,000 TONS. THE US SIDE ORIGINALLY CLAIMED 560,000 TONS IN OTHER BULK CARGO UNDERCARRIAGE, BUT REDUCED THIS TO 278,000 TONS, THE AMOUNT OF TONNAGE CARRIED BY SOVIET SHIPS. THE US SIDE HOPED THIS ACTION WOULD ENCOURAGE A MORE FORTHCOMING RESPONSE FROM THE SOVIET SIDE.

5. ON RATES, THE US SIDE OFFERED TO PUT A CAP ON THE PRESENT RATE MECHANISM AT 20 DOLLARS/TON OR TO ABANDON DEBIT/CREDIT SYSTEM, AND TO REDUCE INDEX RATIO BELOW 3/1 BUT MAINTAIN THE 16 DOLLAR MINIMUM. (UNDER THE DEBIT/CREDIT SYSTEM THE SOVIET SIDE RECEIVED A CREDIT IF THE GULF-BLACK SEA RATE WAS BELOW 16 DOLLARS--THE CREDIT WAS THE AMOUNT OF TONNAGE MOVED TIMES THE DIFFERENCE BETWEEN 16 DOLLARS AND THE DERIVED GULF-BLACK SEA RATE; WHEN THE DERIVED GULF-BLACK SEA RATE WENT ABOVE 16 DOLLARS THE SOVIET SIDE WAS DEBITED IN THAT AMOUNT.

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UNTIL THE DEBITS AND CREDITS BALANCED EACH OTHER OFF, THE APPLICABLE GRAIN SHIPPING RATE WAS TO BE 16 DOLLARS/TON. AFTER THAT THE DERIVED RATE FROM THE INDEX FORMULA IS THE FREIGHT RATE ACTUALLY PAID.) ALTERNATIVELY US PROPOSED FIVE-YEAR RATE OF 18 DOLLARS/TON. SOVIET BULK NEGOTIATOR ZUYEV REJECTED US PROPOSALS AND OFFERED, AMONG OTHERS, 13 DOLLARS/TON FOR ONE YEAR, OR A FIXED CONTRACT RATE OF 16 DOLLARS FOR FIVE YEARS. THE LATTER

RATE, HE SAID, WAS NOT PEGGED TO MARKET.

6. AFTER INITIALLY REJECTING US UNDERCARRIAGE AND RATE PROPOSALS, CHIEF SOVIET NEGOTIATOR, IGOR AVERIN, ON

AFTERNOON OF DEC. 2, DELAYED FURTHER DISCUSSION OF ISSUES WHILE HE SOUGHT "NEW INSTRUCTIONS" FROM MOSCOW. ON LATE TUESDAY MORNING (DEC. 7), HE MADE NEW PROPOSAL ON TAKE-IT-OR-LEAVE-IT BASIS. PROPOSAL CONCEDED FULL AMOUNT OF GRAIN UNDERCARRIAGE, BUT ALSO STATED THAT CARGO MOVEMENTS UNDER CALENDAR YEAR 1977, INCLUDING UNDERCARRIAGE CARGOES, SHOULD BE AT FLAT RATE OF DOLLAR 16/TON. PROPOSAL STATED EXPLICITLY THAT SOVIET SIDE DID NOT ACCEPT US INTERPRETATION OF THE AGREEMENT, I.E. OUR POSITION THAT US-FLAG SHIPS IS NOT ENOUGH.

7. SOVIET PROPOSAL IS UNACCEPTABLE TO US FOR THE FOLLOWING REASONS: (A) DOLLAR 16 FLAT RATE PROPOSAL FOR REPLACEMENT OF UNDERCARRIED CARGOES WOULD CONSTITUTE A REWARD TO THE SOVIET SIDE FOR ITS VIOLATION OF AGREEMENT; HAD SOVIETS COMPLIED WITH THE AGREEMENT, UNDERCARRIAGE GRAIN CARGO WOULD HAVE MOVED AT AN AVERAGE RATE OF DOLLAR 17.33/TON, REPRESENTING LOST TO US SHIPS UNDER SOVIET PROPOSAL OF DOLLAR 1,527,000. (B) MORTON-GUZHENKO LETTER ON RATES OF DECEMBER 29, 1975 (PARAGRAPH 2 A) STATES THAT THE CURRENT RATE AGREEMENT APPLIES TO FIXTURES MADE THROUGH DECEMBER 31, 1976; RATE FOR DECEMBER FIXTURE (WHICH WILL MOVE IN JANUARY) SHOULD THEREFORE BE DOLLAR 21.58, NOT DOLLAR 16 AS SOVIET STATE, SOVIET POSITION IS MAJOR BREACH OF AGREED-UPON METHODOLOGY FOR IMPLEMENTING AGREEMENT AND RELATED DOCUMENTS; (C) ACCEPTANCE OF SOVIET POSITION WOULD MEAN ACQUIESCENCE IN FUNDAMENTAL DE FACTO REVISION BY SOVIETS OF ESSENTIAL AGREEMENT PROVISION THAT US-FLAG VES-

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SELS SHALL CARRY RPT CARRY ONE-THIRD OF ALL BILATERAL CARGOES; IT WOULD MAKE US SUBJECT TO FURTHER MANIPULATION OF THE AGREEMENT BY THE SOVIETS TO THE DETRIMENT OF US INTERESTS; (D) SOVIET PROPOSAL FAILS TO ADDRESS SOVIET VIOLATIONS WITH RESPECT TO OTHER BULK CARGOES.

8. DESPITE NUMBER OF OBJECTIONABLE ELEMENTS IN SOVIET PROPOSAL, US SIDE AT 12:45 PM DECEMBER 7 SUGGESTED IT FURTHER DISCUSSION BY WORKING GROUPS. AVERIN DECLINED SAYING HE AND HIS DELEGATION HAD OTHER COMMITMENTS AND THEN HAD TO LEAVE FOR THE AIRPORT. (SOVIETS WERE IN FACT SCHEDULED TO LEAVE FOR DULLES AIRPORT AT 5:00 PM.) MEETING THEREFORE BROKE UP. AT BLACKWELL'S REQUEST GENERAL SCOWCROFT OF NSC TELEPHONED SOVIET AMBASSADOR DOBRYNIN IN EFFORT TO ARRANGE ADDITIONAL NEGOTIATING SESSION (SOVIET

FLIGHT HAD BEEN DELAYED BECAUSE OF WEATHER). HOWEVER, SOVIETS DECLINED TO NEGOTIATE FURTHER AND NO ADDITIONAL NEGOTIATING SESSIONS WERE HELD.

9. ADDITIONAL NOTES: (A) ON DECEMBER 6 AVERIN INDICATED PRIVATELY TO BLACKWELL THAT LACK OF RESPONSE BY SECRETARY OF TREASURY SIMON TO GENERAL SECRETARY BREZHNEV'S DISCUSSION OF MARITIME ISSUE WAS TAKEN BY SOVIETS AS SIGN OF LACK OF HIGH-LEVEL US INTEREST IN THE PROBLEM; (B) DURING ONE OF FIRST PLENARIES US SIDE MADE NEW PROPOSAL ON CERTIFICATES OF NON-AVAILABILITY, SUBJECT WHICH SOVIETS HAVE RAISED REPEATEDLY OVER THE LAST YEAR. (SOVIETS UNILATERALLY SCRAPPED PREVIOUSLY OPERATING ARRANGEMENT.) US PROPOSAL, HOWEVER, PRODUCED NO SOVIET RESPONSE. ROBINSON

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